Conselho das Finanças Públicas
Portuguese Public Finance Council

Independent endorsement of the macroeconomic forecasts in Portugal

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Joint session between the Independent Fiscal Institutions and the Alternates of the Economic and Financial Committee, Brussels

29 January 2020

The legal framework for endorsement of forecasts

Based in CFP's Statutes (Law 54/2011, of 19 October), its most important regular reports are:

- Report Economic and Fiscal Outlook (previously "Position and Constraints") – March, updated in September
- Opinion on the State Budget (DBP);
- Opinion on the Stability Program (SP);
- Annual budgetary outturn;
- Public finance risks and sustainability.

The CFP also produces sectoral outturn reports: Local Government, Social Security, Health, SOE.

The CFP also publishes Notebooks, Occasional Papers and Working Papers

- All reports are available at https://www.cfp.pt/en/publications

The legal framework for endorsement

- CFP's mandate for the endorsement of the macroeconomic scenario underlying the programming budgetary documents is set in the Portuguese Budget Framework Law (a new Law enacted in 2015 – Law No. 151/2015, of September 11):
  a) Article 8(1) states that the "projections underlying the programming budgetary documents* should be based in the most likely or in a most prudent macroeconomic scenario";
  b) Article 8(3) states that "the programming budgetary documents* must indicate if the underlying scenario was assessed by the CFP."

* The Stability Program (SP), which is discussed in the national Parliament in April before being sent to the EC; the Budget proposal to be presented by the Government to the Parliament in October of year *t-1*, while also sent as Draft Budgetary Plan (DBP) to the EC.

Endorsement process

- CFP is the independent body that endorses the macroeconomic forecasts in Portugal
- Endorsement process started in 2015 (for the DBP for 2016) since Portugal was under Programme until 2014
- On February 2015 a Memorandum of Understanding (MoU) was signed between the Ministry of Finance and the CFP
    - The MoU defines how the analysis of the macroeconomic forecasts is to be conducted by the CFP and describes how the information provided by the Ministry of Finance will be handled including a detailed timetable (presented in the next slide).

MoU's timetable

Day D-40
MF informs CFP on D Day when SP/Budget (DBP) is to be submitted to the Parliament

D-20
MF presents the no-policy change macro forecasts, (including judgement options)

D-15
First reaction of the CFP to the scenario (non-published reaction)

D-10
MF sends the programming scenario (including an overall assessment of policy measures in those forecasts)

D-6
The CFP notifies the MF about the possibility of non-endorsement (non-published document)

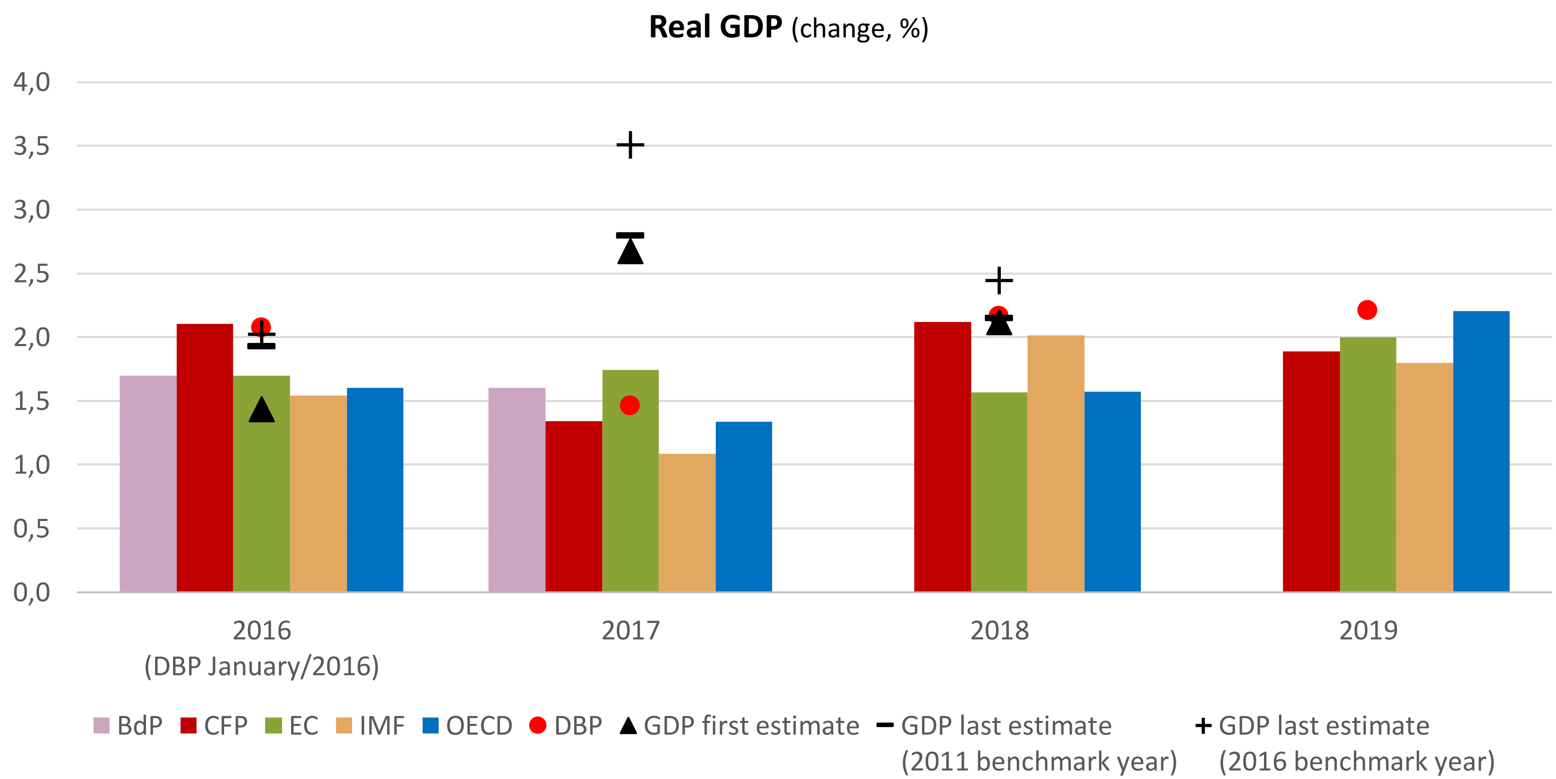
D-4
MF sends the final version of the scenario (including an overall assessment of policy measures in those forecasts) and the sensitivity analysis

D-1
The CFP delivers the final opinion on the scenario

D Day
The MF publishes the SP or OE (proposal) document, including CFP opinion

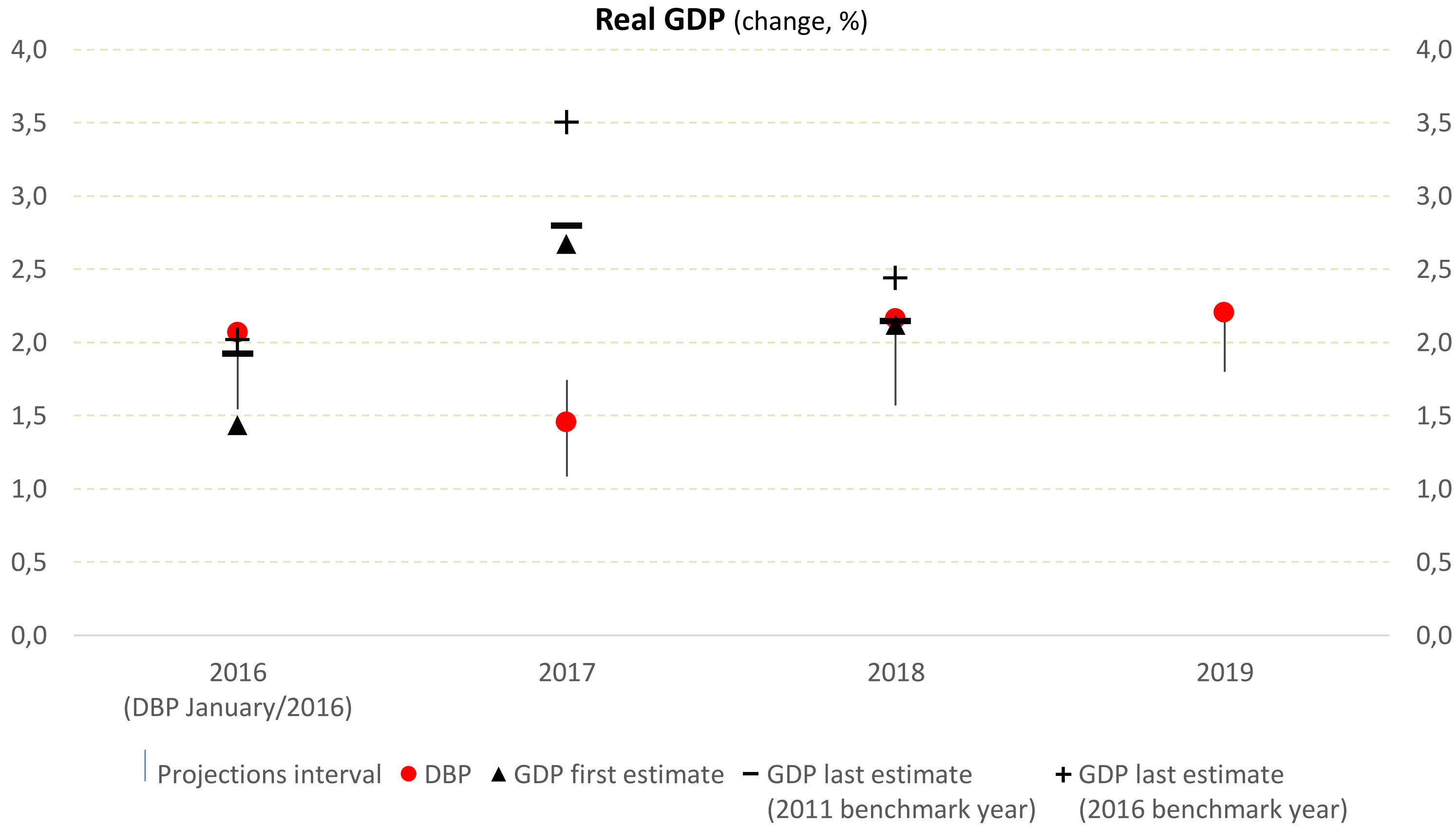
D Day
The CFP publishes its opinion

DBP forecasts



Note: In September 2019 there was a significant revision to GDP growth statistics for 2017 and 2018 resulting from the changeover to 2016 benchmark year by Statistics Portugal. All presented forecasts are not directly comparable to new benchmark year.

DBP forecasts



The projections interval considers the forecasts/projections made by Bank of Portugal, EC, IMF, OECD & CFP.

Note: In September 2019 there was a significant revision to GDP growth statistics for 2017 and 2018 resulting from the changeover to 2016 benchmark year by Statistics Portugal. All presented forecasts are not directly comparable to new benchmark year.

DBP forecasts

- In this period, the DBP forecasts were usually in the upper margin of the range of forecasts, although they could not be necessarily qualified as optimistic, therefore the CFP did endorse them;
- There were no significant reasons for concern (due to the good moment of the economic cycle, further amplified by the recent statistical revision); however, things can change in the event of a reversal in the economic cycle.
- In our opinion, the simple existence of the endorsement process helps to contain any Government’s temptation for some over-optimism that could arise from strict partisan/political reasons or from an attempt to manage the expectations of the economic agents.
- Ultimately, the CFP wonders whether the production of a prudent forecast is not better performed by an independent body rather than by the Ministries of Finance (pros and cons).

CFP's assessment: positive effects and remaining difficulties

- Overall, the endorsement process as shown to be a useful tool to ensure sound, prudent and realistic forecasts underlying the main programming and budgetary documents;
- The exchange of information between the MF and the CFP, under the 2015 MoU has revealed to be fruitful, although some of the information is given at short notice (which makes our assessment more difficult).

CFP’s assessment: positive effects and remaining difficulties

The endorsement process is more challenging for the SP than for the DBP:

- Firstly, in April, the only known projections that already consider the first statistical estimate on the previous year GDP are just the ones of CFP (March Report) and IMF (WEO);
- Secondly, most forecasts have a shorter time horizon than the SP’s (including the EC forecast);
- Lastly, despite not explicitly foreseen by the Regulation, CFP has already felt the need to endorse just part of the time horizon of the SP forecasts.

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Thank you.